

Steel demand remains feeble in September 2021

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The overall production of crude steel and finished steel during September 2021 was higher but consumption of finished steel was lower than that registered in September 2020 as well as that registered in September 2019. Crude steel and finished steel production during September 2021 stood at 9.5 million tonnes (MT) and 9 MT respectively, indicating a growth of 8.7% and 4.7% respectively compared with September 2020 and a growth of 9% and 11% respectively compared with September 2019. Consumption of finished steel was lower by 3.6% (September 2021 vs. September 2020) and 3% (September 2021 vs September 2019).

July to September being a seasonally weak quarter has led to subdued demand in the domestic market for finished steel.

The demand and supply of steel is expected to improve with rise in economic activity and will also be driven by the infrastructure push of the Government of India (GoI). As the economy comes out of the successive lock-downs imposed due to the pandemic, increased vaccination coverage and with the monsoon season now receding, GoI will resume the construction activities for the various infrastructure projects, leading to increased demand for steel products. The demand for flat steel products from the consumer durables segment (auto sector) has already picked up, however, the semi-conductor shortage in the auto segment is likely to hurt the demand for flat steel products over the near term.

Table 1: Performance of steel sector in September 2021

	Million Tonnes (MT)	y-o-y Growth	m-o-m Growth	% Growth (Sep 2021 vs. Sep 2019)
Crude steel production	9.5	7.2%	3.1%	9%
Finished steel				
Production	9.0	5.8%	-0.6%	11%
Imports	0.4	28.6%	3.3%	-28%
Exports	1.4	56.7%	1.7%	33%
Consumption	8.2	-3.6%	2.3%	-3%

Source: Ministry of Steel

On a cumulative basis, India's production of crude steel and finished steel during the first six months of FY22 (April to September) remained higher than that achieved during the corresponding period of the preceding years. Consumption of finished steel was higher by 34.4% when compared with the corresponding period of FY21 however lower when compared with the same period of FY20.

Table 2: Steel production during April to September

	April 2021 to September 2021	April 2020 to September 2020	April 2019 to September 2019	Growth (2021 vs. 2020)	Growth (2021 vs. 2019)
	MT	MT	MT	%	%
Crude steel production	57.2	44.0	55.0	30%	4%
Finished steel					
Production	53.3	39.3	51.6	35.9%	3%
Import	2.4	2.0	4.0	19.6%	-41%
Export	7.8	6.5	3.9	18.5%	97%
Consumption	49.1	36.6	51.0	34.4%	-4%

Source: Ministry of Steel

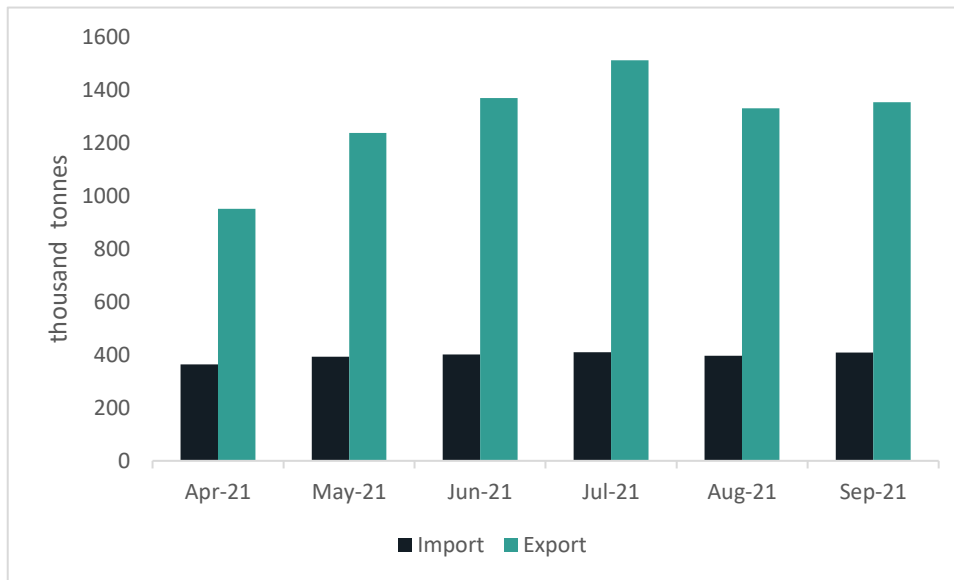
Export/Import trend

As can be seen in the below chart, export of finished steel increased consistently since April 2021 led by higher international steel prices and demand; however, it declined in August 2021 and continued to remain lower than its July 2021 levels during September 2021 as well.

This is due to lower demand from Vietnam, the European Union and China. One of India's largest export destination, Vietnam, is under lockdown due to the next wave of the Covid-19 global pandemic which has significantly impacted trade with the country. Besides, the European Union, which primarily imports flat steel products from India, has exhausted its import quotas from India. Demand from China also remains subdued as the country is trying to cut down its steel production for the calendar year (CY) 2021 to reduce its carbon emissions. China plans to reduce crude steel output this year to below CY 2020 levels. This will be the first annual decrease by China since 2016.

Imports have largely remained range-bound during April 2021 to September 2021.

Chart 1: Trend in finished steel import and export



Source: Ministry of Steel

Global crude steel production

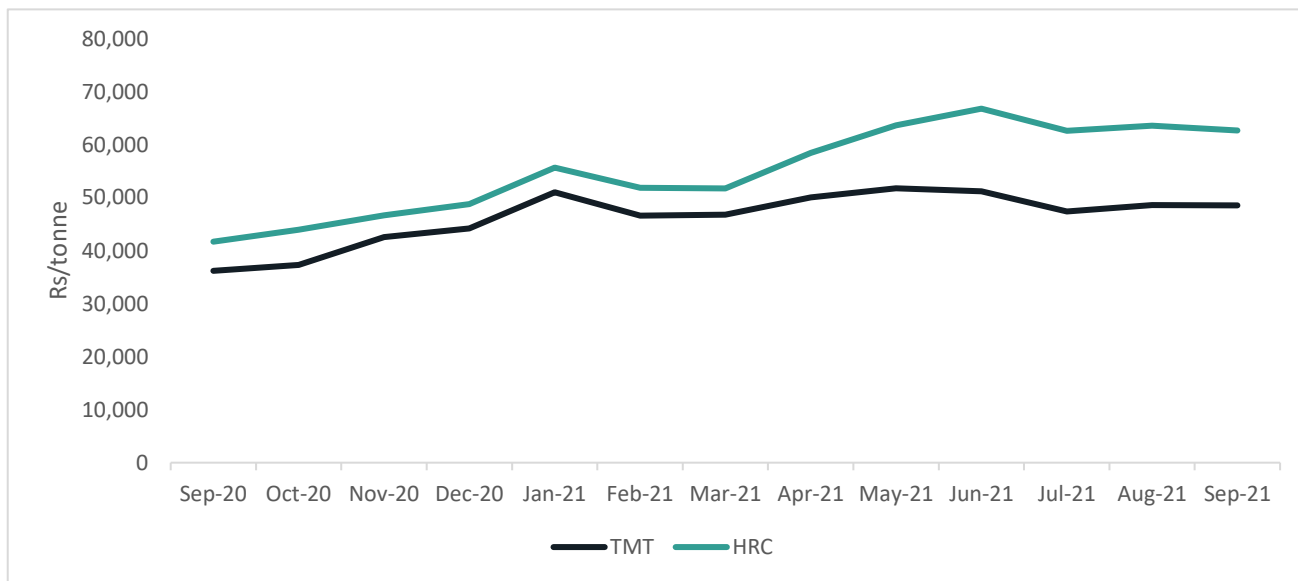
According to the World Steel Association, global crude steel production fell 8.9% on year in September 2021 to 144.4 MT, compared to September 2020. This was due to a sharp 21.2% decrease in production in China. Ex-China production rose by 10.3% y-o-y in September 2021. Ex-China crude steel production rose 15.9% y-o-y over January 2021 to September 2021 (9 months period of the current calendar year), outpacing China's growth of 2% over the same period.

Steel prices

Higher coal prices and signs of rebound in demand as Covid-19 imposed lockdowns end have kept steel prices firm. Demand for long steel products remained robust due to healthy demand from the construction sector and therefore prices of TMT bars remained unchanged in September 2021 at an average Rs 48,525 per tonne. However, lower demand from the auto sector has led to slight correction in the prices of flat steel products such as Hot Rolled Coils (HRC) which fell by 1.5% to average Rs 62,666 per tonne in September 2021.

When compared with year-ago level, prices of TMT bars are up 35% and HRC prices are up almost 50%.

Chart 2: Trend in domestic steel prices (in Rs/tonne)



Source: Steel Insights

Raw material price scenario

Iron ore and coking coal are the main raw materials for steel producers. At present, iron ore prices have fallen from a high level, while the prices of coking coal have reached an all-time high.

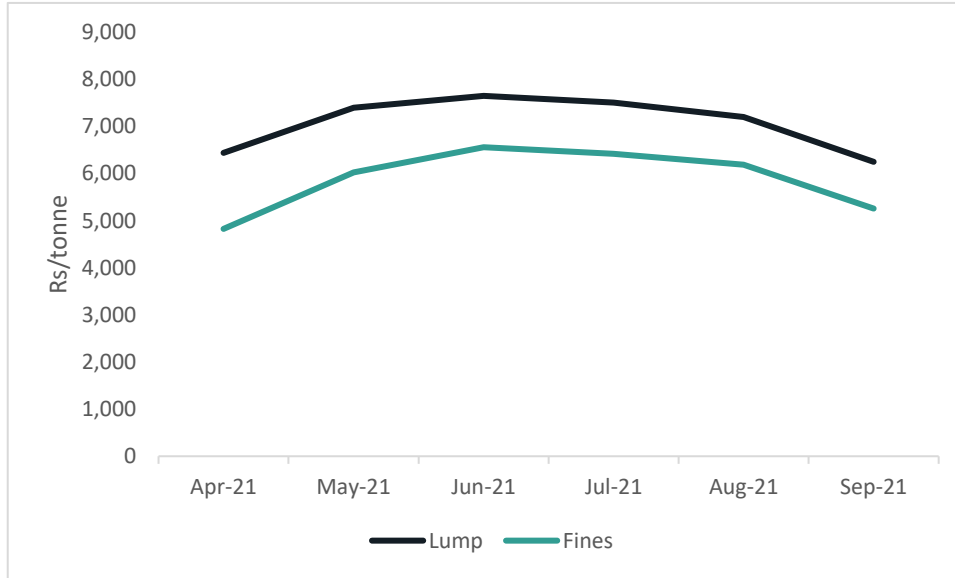
Domestic iron ore prices had hit peak levels in June 2021 in line with rise in international prices. However, prices have since cooled off. Global iron ore prices corrected by 24% in September 2021 to average \$ 162 per tonne from \$ 214 per tonne in August 2021. This was led by lower demand from China, which is the largest importer of iron ore in the world, as the country is producing less steel to meet its reduced annual emissions goals.

India's largest iron ore producer state-controlled NMDC cut its iron ore prices for the fourth time in October 2021. NMDC lowered its prices by Rs 200 per tonne to Rs 5,950 per tonne for lump with 65.5% ferrous (Fe) content and by Rs 400 per tonne to Rs 4,760 per tonne for 10mm fines with 64% Fe content. When compared to the corresponding month of the previous year, prices are still higher by 72% and 51%, respectively for these 2 grades of ores.

On the other hand, prices of coking coal have surged to \$ 410 a tonne due to demand-supply imbalance, as supply has been unable to keep up with global end-user demand, especially outside of China. Due to China's ban on coal imports from Australia, India is buying coal from Australia while China is mainly buying coking coal from the US market. However, exports from Australia have been interrupted due to safety regulations and logistical issues.

Premium hard low-volatile coking coal price stood at \$ 392 per tonne fob Australia on 21 September 2021, up from \$ 225 per tonne on 20 August 2021 and \$111 per tonne in May. Coking coal (ex-Australia) prices rose sharply from \$130 per tonne in Q2FY22 to about \$180 per tonne and are now above \$400 per tonne.

Chart 3: Iron ore prices (in Rs/tonne)



Source: CMIE

Outlook:

Domestic steel production and consumption remained subdued in Q2FY22 due to the second wave of Covid-19 pandemic imposed lockdowns, the onset of the monsoon season affecting construction activities and the global chip shortage (semiconductor shortage) affecting demand from the auto sector. However early signs of pick up in overall demand for steel is seen with increased vaccination coverage, easing lockdown restrictions and an expected pickup in consumption demand during the festive season and government spending on infrastructure.

Therefore, with pickup in government’s infrastructure spending, festive season demand in Q3FY22 and Q4 being the strongest quarter seasonally for the steel industry, H2 of FY2022 is expected to be better than H1 of FY 2022 for the steel industry.

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